



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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March 30, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo
Auditor-Controller

A handwritten signature in blue ink, reading "John Naimo", is written over the printed name and title.

**SUBJECT: DEPARTMENT OF HEALTH SERVICES' COMMUNITY HEALTH PLAN
FINANCIAL AUDIT FOR THE YEARS ENDED JUNE 30, 2013 AND 2014**

Attached is the independent auditor's report on the financial statements of the Department of Health Services' (DHS or Department) Community Health Plan (CHP) for the years ended June 30, 2013 and 2014. The audit was performed by Simpson & Simpson, Certified Public Accountants (Simpson).

State of California law requires CHP and other managed health care plans with an active Knox-Keene license to submit annual financial statements that have been audited by an independent Certified Public Accountant to the State Department of Managed Health Care (DMHC). The statements must be accompanied by an opinion on the fairness of the financial statements' presentation. Simpson's opinion indicates that the financial statements present fairly CHP's financial position and operating results as of, and for the years ended, June 30, 2013 and 2014. CHP's audited financial statements have been submitted to DMHC.

In addition, Simpson's report noted that the transfer of CHP's managed health care plan operations (i.e., active members and programs) to L.A. Care Health Plan, the County's local initiative for managed health care, was completed as of October 1, 2012. As a result, CHP had minimal financial activity during the two fiscal years covered by the audit. DHS will keep CHP's Knox-Keene license active until DMHC issues a final decision on the Department's request to modify the license from full-service to restricted status for potential future use. DHS indicated that they plan to use the license to contract for services such as skilled nursing, home health, and hospice care. CHP

continues to carry forward a Fund Net Position balance of approximately \$12.5 million, which they will use if the request is granted, or will transfer to the appropriate DHS Budget Unit if the request is not approved.

If you have any questions, please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS

Attachment

c: Sachi A. Hamai, Interim Chief Executive Officer
Mitchell H. Katz, M.D., Director, Department of Health Services
Mark J. Saladino, County Counsel
Public Information Office
Audit Committee

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN**

**Financial Statements for the
Years Ended June 30, 2014 and 2013
with Independent Auditor's Report**



**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors of
the County of Los Angeles

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles County Department of Health Services Community Health Plan (CHP) fund, in the County of Los Angeles, California as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements which collectively comprise CHP's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.





Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CHP as of June 30, 2014 and 2013, and changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2, the financial statements present only the CHP and do not purport to, and do not present fairly the financial position of the Los Angeles County Department of Health Services, as of June 30, 2014 and 2013, and the changes in its financial position, or, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 7, 2015 on our consideration of CHP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script, appearing to read 'Simpson & Simpson'.

Los Angeles, California
January 7, 2015

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Balance Sheets
For the Fiscal Years Ended June 30**

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	\$ 13,498,485	\$ 26,952,973
Receivables (Note 3)	57,318	431,903
Due from the Los Angeles County (Note 5)	491,230	-
Total current assets	<u>14,047,033</u>	<u>27,384,876</u>
Noncurrent assets:		
Long-term investments	<u>301,924</u>	<u>303,504</u>
Total noncurrent assets	<u>301,924</u>	<u>303,504</u>
TOTAL ASSETS	<u><u>14,348,957</u></u>	<u><u>27,688,380</u></u>
LIABILITIES AND FUND NET POSITION		
Current liabilities:		
Claims payable (Note 4)	333,018	238,850
Accounts payable	-	143,697
Accrued salaries and related benefits	1,544,379	1,544,379
Amount due to Los Angeles County (Note 5)	-	12,584,361
Total current liabilities	<u>1,877,397</u>	<u>14,511,287</u>
Fund net position (note 9):		
Restricted	301,924	303,504
Unrestricted	<u>12,169,636</u>	<u>12,873,589</u>
Total fund net position	<u>12,471,560</u>	<u>13,177,093</u>
TOTAL LIABILITIES AND FUND NET POSITION	<u><u>\$ 14,348,957</u></u>	<u><u>\$ 27,688,380</u></u>

The accompanying notes are an integral part of these financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Statements of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Years Ended June 30**

	2014	2013
REVENUES		
Capitation premiums	\$ -	\$ 2,052,829
OPERATING EXPENSES		
Cost of health care services:		
Capitation premiums	-	1,795,028
Medical services	330,810	765,016
Medical supplies	-	20,653
Total cost of health care services	<u>330,810</u>	<u>2,580,697</u>
General and administrative:		
Salaries and employee benefits	-	143,498
Professional and consulting services	-	146,897
Rent	-	6,499
Office expense	10,666	-
Communications	-	9,927
Total general and administrative expenditures	<u>10,666</u>	<u>306,821</u>
Total operating expenses	<u>341,476</u>	<u>2,887,518</u>
OPERATING LOSS	(341,476)	(834,689)
OTHER REVENUES		
Interest income	144,647	252,330
Other revenues	400,306	1,346,856
Total other revenues	<u>544,953</u>	<u>1,599,186</u>
Increase in Fund Net Position	203,477	764,497
FUND NET POSITION, beginning of year	13,177,093	44,521,650
Transfer to LA County (Note 6)	<u>(909,010)</u>	<u>(32,109,054)</u>
FUND NET POSITION, end of year	<u>\$ 12,471,560</u>	<u>\$ 13,177,093</u>

The accompanying notes are integral part of these financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Statements of Cash Flows
For the Fiscal Years Ended June 30**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) Increase in Fund Net Position	\$ 203,477	\$ 764,497
Adjustment for non-cash item:		
Unrealized loss in value of investment	1,580	-
Adjustments to reconcile change in net income to net cash used by operating activities		
Changes in operating assets and liabilities:		
Decrease in receivables	374,585	3,180,449
(Increase) in due from Los Angeles County	(491,230)	-
(Increase)/Decrease in due to Los Angeles County	(12,584,361)	27,525,586
(Decrease) in accrued capitation	-	(871,884)
Increase/(Decrease) in claims payable	94,168	(1,473,813)
(Decrease) in accounts payable	(143,697)	(844,185)
(Decrease) in accrued salaries and related benefits	-	(76,170)
Increase/(Decrease) in other liability	-	(795,528)
Net cash (used in)/provided by operating activities	<u>(12,545,478)</u>	<u>27,408,952</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfer to Los Angeles County	(909,010)	(32,109,054)
Net cash used by financing activities	<u>(909,010)</u>	<u>(32,109,054)</u>
Net decrease in cash and cash equivalents	(13,454,488)	(4,700,102)
Cash and cash equivalents, beginning of the year	<u>26,952,973</u>	<u>31,653,075</u>
Cash and cash equivalents, end of the year	<u><u>\$ 13,498,485</u></u>	<u><u>\$ 26,952,973</u></u>

The accompanying notes are an integral part of these financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

The Community Health Plan (CHP) is Los Angeles County's full service health plan that is administered by the Department of Health Service (DHS) division of Managed Care Services. It is a federally qualified health maintenance organization (HMO) licensed by the State of California Department of Managed Health Care (DMHC) under the Knox-Keene Health Care Service Plan Act of 1975. During licensure, CHP provided a full range of health care services to its enrollees through DHS health care network.

On March 29, 2011 the Los Angeles County Board of Supervisors (Board) approved the DHS Director's recommendation that all lines of the CHP business be transferred from CHP to L.A. Care and that L.A. Care assume all health plan functions. This transition was to occur gradually over the subsequent year and would eventually result in CHP's discontinuation as a managed care health plan.

On November 8, 2011 the Board authorized the Director of Health Services to execute an agreement with L.A. Care to structure a long term financial relationship between L.A. Care and the County of Los Angeles and to provide for the orderly transfer of health plan operations from CHP to L.A. Care, effective on the date of Board's approval through December 31, 2021.

DHS decided to maintain a Knox-Keene license (restricted) for some of its arrangements for delivery of health care services through its health care system. The Knox-Keene license remains in force until DHS and DMHC completes ongoing discussions on its possible future use.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Currently a managed health care organization with no active members, CHP derived the majority of its revenues on interest earned from funds deposited in cash and investment pools. CHP prepared its financial statements in accordance with the AICPA Audit and Accounting Guide for "Health Care Organizations." The following is a summary of significant accounting policies used in the preparation of the accompanying consolidated financial statements. Such policies are in accordance with accounting principles generally accepted in the United States of America and have been consistently applied. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for each reporting period. The significant estimates made in the preparation of CHP's financial statements relate to the assessment of the carrying value of claims payable and contingent liabilities. While management believes that the carrying value of such assets and liabilities is adequate as of June 30, 2014 and 2013, actual results could differ from the estimates upon which the carrying values were based.

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIE (CONTINUED)

Basis of Presentation

The accounts of the DHS are organized on the basis of funds and account groups, each of which is a separate accounting entity. Each fund is accounted for through a separate set of accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses, as appropriate. CHP, an enterprise activity of the Managed Care Services Department of the DHS is reported in the DHS general fund of the County of Los Angeles. General fund is used to account for all financial resources except those required to be accounted for in another fund. Resources or expenditures not restricted for a particular purpose are accounted for in the general fund.

The financial statements of the CHP are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the DHS that is attributable to the transactions of the CHP. They do not purport to, and do not, present fairly the financial position of the Los Angeles Department of Health Services, as of June 30, 2014 and 2013, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with GAAP.

Adoption of New Accounting (GASB) Pronouncements

The GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* effective for period beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. CHP adopted GASB 65, effective July 1, 2013, and there was no material impact of this pronouncement on CHP's financial statements.

Concentration of Source of Revenues

CHP discontinued its operations as a managed health care organization with enrolling members effective September 30, 2012. For the fiscal year ended June 30, 2014, CHP's primary source of revenue is interest earned from cash and investment pools. Another source of revenue for the fiscal year ended June 30, 2014 was a one-time settlement awarded to CHP from a class action litigation. This settlement benefits amounted to \$355,102 or approximately 93% of other revenue recorded by CHP.

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIE (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consist of CHP's equity portion of the Los Angeles County cash and investment pool. Funds received by CHP are deposited into the cash and investment pool for which the County Treasury is the depository. Funds deposited in the pool are similar in nature to demand deposits, (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty). Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated based on the average daily cash balances of the fund. The average annual interest rates earned on CHP's deposits during fiscal years ended June 30, 2014 and 2013 were approximately 1%. As of June 30, 2014 and 2013, substantially all investments in the County investment pool were U.S. government securities, bankers' acceptances and negotiable certificates of deposit.

Long-Term Investments

Long-term investments consist of restricted investments on deposit with the California Department of Managed Health Care (DMHC). These investments consist of U.S. Treasury securities, and due to their restricted nature, are classified as long-term without regard to contractual maturity. Market values approximate carrying values as of June 30, 2014 and 2013.

Claims Reimbursement Receivable

Claims reimbursement receivable are claims for capitated services paid by CHP that are reimbursable from the contracted medical groups and hospitals. Management believes that uncollectible amounts, if any, will not be material to the financial statements.

Claims Payable

The liability for claims payable includes adjudicated claims, claims pending adjudication and a provision for incurred but not reported claims. The amount payable for the claims pending adjudication is reduced by an allowance for denied claims estimated based on paid/denied ratio of claims closed during the year. The provision for incurred but not reported claims is estimated using a lag study based upon historical data including the period between the date services are rendered and the date claims are received and paid and denied claim activity. The estimate for incurred but not reported claims is made on an accrual basis and adjusted in future periods as required.

Any adjustments to the prior period estimates are included in the current period. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of claims and losses paid are dependent on future developments, management is of the opinion that the recorded reserves are adequate to cover such costs. These liabilities are reduced by estimated amounts recoverable from contracted health care providers.

These notes are an integral part of the preceding financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIE (CONTINUED)

Fund Net Position

Fund net position is reported as restricted when constraints placed on its use are either: (1) externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. CHP's restricted fund net position consists of the amounts required to satisfy the deposit and tangible net equity requirements of the Department of Managed Health Care as of June 30, 2014 and 2013.

Premium Revenues

CHP's premium revenues were capitation payments received for plan enrollees on a per member per month basis. Premiums were recognized as revenue in the month in which the members were entitled to service.

Cost of Health Care Services

CHP contracted with various medical groups to provide professional care to its members on a capitated, or fixed per member per month fee basis. Capitation contracts generally included a provision for stop-loss and non-capitated services for which CHP was liable. Additionally, CHP contracted with certain hospitals to provide hospital care to enrolled members on a capitation basis.

The cost of health care services was recognized in the period in which services were provided and included an estimate of the cost of services which were incurred but not yet reported. Such costs included capitation payments to contracted medical groups and hospitals for primary care, specialty and hospital services and the cost of non-capitated medical services, pharmacy and medical supplies.

Fair Value of Financial Instruments

The estimated fair value amounts of cash equivalents and long-term investments approximate their carrying amounts in the financial statements and have been determined by CHP using available market information and appropriate valuation methodologies. The carrying amounts of cash equivalents approximate fair value due to the similarity in its nature to demand deposits. The fair values of long-term investments are estimated based on quoted market prices and dealer quotes for similar investments.

Income Tax

As an operating division of the County, CHP was exempt from State and Federal income taxes.

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 – RECEIVABLES

Receivables are comprised of interest receivable, capitation premiums receivable, Quality Improvement Funding receivable and claims reimbursement receivable from health care service providers. As of June 30, 2014 and 2013, receivables consisted of the following:

	2014	2013
Capitation premiums receivable	\$ -	\$ 1,548
Claims reimbursement receivable	-	1,027,540
Allowance for doubtful	-	(694,052)
Interest receivable	57,318	96,867
	<u>\$ 57,318</u>	<u>\$ 431,903</u>

NOTE 4 – CLAIMS PAYABLE

Claims payable are comprised of claims payable, claims pending adjudication and a liability for claims incurred but not yet received, reduced by management's estimate of the amount that will be denied and the amount that will be recoverable from contracted providers. As of June 30, 2014 and 2013, claims payable consisted of the following:

	2014	2013
Claims payable	\$ 333,018	\$ 2,986,101
Claims incurred but not received	-	1,501
Less: Allowance for denied claims	-	(2,748,752)
	<u>\$ 333,018</u>	<u>\$ 238,850</u>

NOTE 5 – AMOUNT DUE TO/FROM LOS ANGELES COUNTY

Cash disbursements for CHP are made from the DHS general fund. CHP transfers funds periodically to the general fund from its County cash and investment pool to reimburse the general fund or to fund its projected cash disbursements. The amount due to Los Angeles County consists of the amount owed to the DHS general fund and the amount due other County funds for services and supplies such as telephone, rent and information system support. The amount due from Los Angeles County at June 30, 2014 represented cash received by the County but has not transfer to CHP's trust fund account. The majority of the amount due from the County was cash collected from the one time settlement awarded to CHP during the fiscal year 2013-14 (see Concentration of Source of Revenues of Note 2).

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 – AMOUNT DUE TO/FROM LOS ANGELES COUNTY (Continued)

As of June 30, 2014, the net amount due to and from Los Angeles County were as follows:

	2014	2013
Amount due from Los Angeles County	\$ 491,230	\$ -
Amount due to Los Angeles County	-	(12,584,361)
Net of Amount due to:	<u>\$ 491,230</u>	<u>\$ (12,584,361)</u>

NOTE 6 – TRANSFER TO LOS ANGELES COUNTY

CHP transferred \$909,010 to the General Fund of DHS for the fiscal year ended June 30, 2014.

NOTE 7 – REGULATORY REQUIREMENTS

CHP, as a California licensed health service plan, is regulated by the State of California Department of Managed Health Care (DMHC). Title 28 of the Code of California Regulations requires that CHP maintain certain deposits assigned to the Director of the DMHC and comply with certain minimal capital or tangible net equity requirements. Management believes that as of June 30, 2014 and 2013, CHP met its regulatory requirements.

NOTE 8 – CONTINGENCIES

On February 19, 2014, a claim was filed against CHP seeking reimbursement of \$10,059,533 for claims deemed to be underpaid from 2010 and 2011. Based on existing Medi-Cal rates, the Management of CHP estimated that the potential value of such claim could be \$1,467,720. However, CHP has not been able to evaluate the potential likelihood of an outcome of the claim because repeated inquiries with the claimant to obtain additional information to determine if the patients underlying the claims were in fact CHP members have not been answered as of this report date.

The County has agreed to fund CHP's losses, if any, and to cover CHP under its self-insured medical malpractice program when medical services are provided at a County facility. In addition, the County has agreed to cover CHP under its self-insured workers' compensation program. These coverages were provided to CHP at no cost.

NOTE 9 – RESTRICTED FUND NET POSITION

As a result of CHP's transition, the restricted and unrestricted fund net position has been held until all claims and other liabilities are paid. The remaining funds will be transferred to DHS by no later than June 2015 unless a decision is rendered before-hand about the future use of CHP's Knox-Keene license.

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

**NOTE 10 – CHP’S DISCONTINUATION OF ITS HEALTH PLAN OPERATIONS
TRANSITION AND SAFETY NET SUPPORT AGREEMENT WITH L.A. CARE
HEALTH PLAN**

On March 29, 2011 the Los Angeles County Board of Supervisors (Board) approved the DHS Director’s recommendation that all lines of the CHP business be transferred from CHP to L.A. Care and that L.A. Care assume all health plan functions. This transition was to occur gradually over the subsequent year and would eventually result in CHP’s discontinuation as a managed care health plan.

On November 8, 2011 the Board authorized the Director of Health Services to execute an agreement with L.A. Care to structure a long term financial relationship between L.A. Care and the County of Los Angeles and to provide for the orderly transfer of health plan operations from CHP to L.A. Care, effective on the date of Board’s approval through December 31, 2021.

Director of Health Services finalized negotiations with L.A. Care on the transition agreement (Community Health Plan Transition & Safety Net Support Agreement) with an effective date of January 1, 2012. The primary value of CHP to DHS over the years has been the revenue it brings in for patients who receive their care in the DHS system. Thus, in negotiating the long term agreement, the parties were to focus on the elements which would provide the basis for ongoing funding for DHS. The financial terms for the financial support from L.A. Care Health Plan to DHS are confidential and not subject to disclosure. These provisions are protected as proprietary and also subject to Section 1457 of the Health and Safety Code, among other confidential provisions and public record exemptions. The agreement included the following provisions:

1. Mutual indemnification between the parties,
2. The County retained financial and other legal responsibilities as appropriate prior to the transition date. L.A. Care assumed financial and other legal health plan responsibilities thereafter,
3. Each party maintained certain recordkeeping responsibilities as appropriate,
4. The parties established payment to the County of any of its CHP accounts receivables that exist following the transition date(s).

Additionally, this transition included separate Hospital Services and Participating Provider agreements between DHS and L.A. Care (effective May 1, 2011 with the new Medi-Cal Seniors and Persons with Disabilities (SPD) product line). The Medi-Cal Non-SPD line of business was amended into these agreements effective October 1, 2011. The In Home Supportive Services (IHSS) and Healthy Families Program (HFP) lines of business were included in separate amendments, both effective February 1, 2012. These contracts and amendments firmly established DHS as a contracted institutional and professional services provider under L.A. Care Direct (L.A. Care’s fully owned and operated HMO subsidiary).

The CHP Medical Managed Care Program (MMCP) members transferred to LA Care Direct on January 1, 2012. The CHP IHSS members transferred to LA Care Direct on February 1, 2012. CHP had the preferred Community Provider Plan (CPP) designation for HFP enrollees for the contract year beginning October 1, 2011. Thus, these CHP HFP enrollees could not be transitioned to L.A. Care, per the Managed Risk Medical Insurance Board (MRMIB, which administers the HFP), and CHP continued as an operating Knox-Keene licensed health plan for the HFP through September 30, 2012. On this date, CHP ceased to be the designated CPP for the HFP. CHP HFP members received an Open Enrollment notification in July 2012 from the MRMIB. During this Open Enrollment period, they were asked to select a new HFP participating health plan and provider to become effective October 1, 2012.

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 11 – SUBSEQUENT EVENT

The CHP has evaluated events or transactions that occurred subsequent to June 30, 2014 through January 7, 2015, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that the subsequent matter requires disclosure or adjustment to the accompanying financial statements.

These notes are an integral part of the preceding financial statements.



SIMPSON & SIMPSON
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**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Supervisors of
the County of Los Angeles

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the **Los Angeles County Department of Health Services Community Health Plan (CHP)** as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, and have issued our report thereon, dated January 7, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CHP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CHP's internal control. Accordingly, we do not express an opinion on the effectiveness of CHP's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CHP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CHP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, appearing to read 'Simpson & Simpson'.

Los Angeles, California
January 7, 2015